RESEARCH HIGHLIGHT

December 2004

Socio-economic Series 04-041

INITIAL DEMOGRAPHIC ANALYSIS OF THE HOME-BUILDING INDUSTRY AND SUCCESSION PLANNING

INTRODUCTION

In May 2004, Canada Mortgage and Housing Corporation (CMHC) and the Canadian Home Builders' Association (CHBA) commissioned Clayton Research Associates Limited to undertake an initial analysis of succession planning in the home-building industry.

The objective of the analysis was to develop a preliminary understanding of the demographics of builders of new homes and renovators, with a view to helping the industry undertake succession planning and address the possibility of shortages in entrepreneurial skills in the housing sector in the long-run.

METHODOLOGY

The survey questions were included in the *Spring/Summer 2004 CHBA Pulse Survey of Canadian Home Builders*. About 10 per cent of the CHBA membership—320 home builders—answered the questions. Those responding included builders of new homes, renovators, general contractors and developers.

Because of the small sample size, the research report presents the analysis at the total sample level. Appendices to the report include the survey questions and cross tabulations of the key questions. The key questions identify five variables: regions; principal activity (for example, new home-building, renovation); age of principal owner or senior executive; years company has been in business; and number of employees.

KEY FINDINGS

Respondents represent a range of activities

- Companies represent various segments within the sector—builders of new homes, developers, renovators and general contractors.
- The largest group of respondents—about 6 in 10—is companies primarily engaged in building new homes or development.

Many are long-established companies—but also new entrants

- The home-building industry has some well-established companies: 1 in 6 respondents have been in business for at least 30 years and another 1 in 4 for 20 to 29 years.
- However, newer companies are also entering the industry: among respondents, 8 per cent are established less than 5 years ago and 23 per cent less than 10 years ago.

Typical respondent is a smaller company

- Companies are typically small—about two-thirds have 10 or fewer employees.

CMHC SCHL

HOME TO CANADIANS

Canada

Most companies are run by the founder

- More than 80 per cent of principal owners (largest shareholders) or primary executives (for public companies or companies with no principal owner) establish their companies.
- In companies established at least 40 years ago, the founder is still running some, but a son or daughter is now running about half.

Owners and primary executives expect to retire in next 10 years

- More than 40 per cent of companies said that their principal owner or senior executive is likely to retire within the next 10 years.
- Almost 1 in 10—many 60 years old or older—say they have no plans to ever retire.

Few companies have a succession plan

- Only about 1 in 5 companies has a succession plan.
- About 1 in 3 is currently working on a succession plan or planning to consider one within the next two to three years.
- Almost half do not have a plan and do not plan to develop one within the next 2 to 3 years.

Most expect to keep companies in the family

- About half said that a relative would take over—most often a son or daughter.
- Almost 1 in 5 say that they would shut down. Among those who say they would shut down, about 14 per cent (less than 3 per cent of all respondents) said they are already starting to scale back operations.

Fewer of those near retirement expect to shut down

- Among those planning to retire within the next 10 years, relatively fewer—14 per cent—say they would shut down.

Those with succession plans less likely to shut down

- Among those with succession plans already in place, more than half say that a son or daughter will take over.
- Only 5 per cent say they will shut down.
- For those with no succession plans, more say they will shut down. The research does not show how many of those without succession plans have no children or children with no interest in the business.

STUDY LIMITATIONS

The research provides some initial insights into succession planning by home-building firms and the actions companies are likely to take in the future. However, limitations of the study include:

- Results are based on the responses from home builders participating in the *Spring/Summer 2004 Pulse Survey*. It is not known to what extent responding CHBA and APCHQ (l'Association provinciale des constructeurs d'habitations du Québec) members are representative of non-responding members and non-members.
- The report's appendix presents results separately for subgroups. In many cases, however, sample sizes are small and this should be considered when interpreting the results.

POTENTIAL FURTHER RESEARCH

Additional research would be beneficial to:

- Verify that the sample is representative of the home-building industry.
- Determine how succession planning in the home-building industry compares to other sectors (in particular, to small businesses, given that small builders dominate the home-building industry).
- Obtain larger samples to improve statistical quality of responses.
- Ask supplementary questions—for instance, why shutting down operations is seen as the only recourse by many respondents; whether those whose children will take over feel it is a promising opportunity; whether current owners would become homebuilders again.
- Obtain more information to help assess the impacts of succession patterns on industry issues such as efficiency, competitiveness, innovation, housing affordability, adequate housing supply and choice, and availability of entrepreneurial skills.

CMHC Project Manager: Eric Tsang

Consultant: Clayton Research Associates Limited

Housing Research at CMHC

Under Part IX of the *National Housing Act*, the Government of Canada provides funds to CMHC to conduct research into the social, economic and technical aspects of housing and related fields, and to undertake the publishing and distribution of the results of this research.

This fact sheet is one of a series intended to inform you of the nature and scope of CMHC's research.

To find more *Research Highlights* plus a wide variety of information products, visit our Web site at

www.cmhc.ca

or contact:

Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, Ontario
K1A 0P7

Phone: 1 800 668-2642
Fax: 1 800 245-9274

OUR WEB SITE ADDRESS: www.cmhc.ca

Although this information product reflects housing experts' current knowledge, it is provided for general information purposes only. Any reliance or action taken based on the information, materials and techniques described are the responsibility of the user. Readers are advised to consult appropriate professional resources to determine what is safe and suitable in their particular case. Canada Mortgage and Housing Corporation assumes no responsibility for any consequence arising from use of the information, materials and techniques described.

63797